

Recruiting and retaining good staff is crucial for any employer and with parents representing almost 40 per cent of the UK workforce, good quality and affordable childcare is important to both employers and employees. Employers that offer childcare support to employees generally see many benefits. There are a number of ways in which you can support working parents, for example you could:

- **subsidise childcare costs and/or provide a workplace nursery;**
- **offer flexible working options; or**
- **provide information on childcare options.**

This fact sheet highlights how by offering childcare vouchers, you can support your employees by providing help with the costs of childcare.

What are childcare vouchers?

These are vouchers that you can offer to your employees to help them meet their childcare costs. Childcare vouchers, up to a limit of £55 per week, or £243 a month, are exempt from National Insurance Contributions for employers and exempt from tax and National Insurance Contributions for employees. As an employer, you will therefore reduce some of your business costs and your employees will make savings on their childcare costs.

Which employees receive vouchers?

Each employed parent using eligible childcare (registered or approved – *What sort of childcare can vouchers be used to pay for?* on page 3) may claim the exemption, so if both parents are employees of your organisation, they are both eligible to receive the vouchers. The employee's child or children, for whom the childcare voucher is provided, is eligible up to 1 September following their 15th birthday, or 1 September following their 16th birthday if she or he is disabled.

NB: If you decide to provide a childcare voucher scheme, you have to make it generally available to all employees where the scheme operates. This means that the scheme must be open to all employees who want to benefit from it, as long as they are using eligible childcare. (Prior to the law changing on 6 April 2005, employers were able to supply vouchers to sections of the workforce in a workplace, for example only provide them to female employees.)

How does a childcare voucher scheme work?

You will normally contract a childcare voucher company to provide vouchers to your staff. (See our factsheet '**Childcare voucher companies**', for details of companies who can provide childcare vouchers to your employees on your behalf.)

Childcare vouchers can be offered as a benefit-in-kind, on top of existing pay, as part of a flexible benefits package or, most commonly, as part of a salary sacrifice scheme (see *What is salary sacrifice?* below).

The voucher company will normally provide you with the childcare vouchers, which you can then distribute to staff accordingly, although some may post vouchers directly to the employee's home. Employees can then use the vouchers to 'pay' their childcare provider. The childcare provider will then be able to redeem the value of the voucher directly from the childcare voucher company. Payment to the childcare provider is usually made by direct payment into their bank account.

You will negotiate a management fee with the voucher company for their service. The savings that you make on National Insurance Contributions generally more than cover the cost of this fee.

NB: You do not have to employ a Childcare Voucher company to administer your scheme, you can administer it yourself. See our factsheet '**How to self-administer a childcare voucher scheme**'. You can also directly contract a childcare provider, bypassing a voucher system altogether. See our factsheet '**How to directly contract a childcare provider**'.

What is salary sacrifice?

Salary sacrifice means that an employee formally agrees to a reduction to their taxable salary and instead receives that amount (equivalent to the reduction) in childcare vouchers. The value of the childcare voucher is exempt from National Insurance Contributions and tax for the employee and from National Insurance Contributions for you as the employer. This means that you benefit from National Insurance Contributions' savings of up to 12.8 per cent (up to 11 per cent for employees, plus savings made on not paying tax). An employee's contract must be updated and a signed agreement incorporated to reflect the changes agreed within the salary sacrifice. For further information on salary sacrifice, see our information sheet '**Salary sacrifice**'.

How will we benefit as an employer by offering childcare vouchers?

Employers who provide support for their staff through childcare vouchers benefit in a number of ways including:

- National Insurance Contributions' savings of up to 12.8 per cent – around £300 a year.
- Tax and National Insurance Contributions' savings for employees – helping them with childcare costs.
- Providing a childcare voucher scheme demonstrates commitment to your staff and enhances your company image.
- Improves staff motivation and morale, therefore increasing productivity.
- Improves staff recruitment and retention.
- Reduces absenteeism in employees.

How much will it cost?

The only cost to you, if sign up to a childcare voucher scheme, is the management fee you pay to the voucher company. These fees will vary and are often negotiable. Some voucher companies may charge a set rate, whilst others may charge a percentage (generally from 5–8 per cent) of the overall value of childcare vouchers provided by you. The savings you make from reduced National Insurance Contributions usually exceeds the management fee charged by the voucher company.

Will it involve extra work for our organisation?

There is minimal administration involved when operating a childcare voucher scheme. Generally, the voucher company will be responsible for the administration, although you can often negotiate what you would like them to be responsible for and which elements you are happy to administer yourselves in-house. This will obviously affect the management fee charged by the voucher company.

It is important to involve different staff groups (including the management team, human resources, payroll managers and administrators, employee or union representatives) in the planning process to ensure that the arrangements and responsibilities that you agree to are realistic and will be the most efficient for you as an employer. If you are going to offer a salary sacrifice scheme, it is important that a clear contractual change is made for each employee who joins the scheme; this will usually be an amendment to the employee's employment contract, which should be signed by both parties.

How much can employees receive in vouchers?

There is no limit on the amount you can give employees in vouchers – however only the first £55 qualifies for National Insurance Contributions exemptions for employers, and tax/National Insurance Contributions exemptions for employees. The only legal consideration is (if you operate Salary Sacrifice) that the employee's cash pay cannot fall below the National Minimum Wage. (The current main rate is £5.05.)

What sort of childcare can vouchers be used to pay for?

Childcare vouchers can be used to pay for any form of legal childcare, but the first £55 per week you receive in vouchers will only be exempt from tax and National Insurance Contributions if it is used to pay for registered or approved childcare.

Registered childcare services have been registered and inspected by [Ofsted](#) (in England), the [Care Standards Inspectorate for Wales](#), the [Scottish Commission for the Regulation of Care](#) and the Health and Social Services Trust in Northern Ireland.

Registered childcare includes:

- Childminders, nurseries and play schemes registered by any of the organisations listed above.
- Out-of-hours clubs run by a school on the school premises or by a local authority.
- Childcare schemes run by approved providers. (See *Quality Approval Schemes* on page 7, for a list of qualifying schemes.)
- An approved foster-carer (the care must be for a child who is not the foster carer's foster child).
- In England only, a home-childcarer approved under the Childcare Approval Scheme who cares for a child or children in the child's own home.

NB: The Childcare Approval Scheme is a voluntary scheme which allows childcare, which would not normally be required to be registered or regulated by Ofsted, to become approved and eligible for receiving financial support (childcare vouchers and tax credits). (For example childcare in the child's home - such as a nanny, or childcare for children over the age of seven on other domestic premises - such as childminders.) For more information contact the helpline on 0845 7678 111 or visit:

- In England only, childcare given in the child's own home by a domiciliary worker or nurse from a registered agency that cares for the child or children.
- In Scotland only, childcare given in the child's own home by (or introduced through) childcare agencies, including sitter services and nanny agencies, which must be registered.

NB: Childcare provided by a relative of the child is generally not eligible for help via the tax and National Insurance Contributions exemptions on employer-supported childcare (or for the childcare element of Working Tax Credit). The only exception to this is when a relative has been registered or approved as a childminder and happens to care for a related child, but whose primary or main paid childminding is for children to whom they are not related. This care must not be provided in the child's own home.

A relative means a parent, grandparent, aunt, uncle, brother or sister - whether directly blood-related or related by marriage or affinity.

Can all childcare providers accept childcare vouchers?

As long as the childcare provider has a bank account, they can receive vouchers. They need to register their details with the childcare voucher company, in order to receive the reimbursed value of the voucher. This is usually a record of contact details, registration number, where appropriate, and bank account details if the voucher company intends to make payments directly into the bank account of the provider.

There is no cost to the childcare provider in accepting payment through childcare vouchers. Most voucher companies will provide information packs for childcare providers that explain the voucher process.

What about workplace nurseries - do they qualify for the same tax and National Insurance Contributions exemptions?

If schemes meet the criteria for workplace nurseries they qualify for full tax and National Insurance Contributions exemptions. For information about the criteria see the Revenue's booklet, **E18-'Employer's Help Book - How you can help your employees with childcare'**, available from www.hmrc.gov.uk.

Information about other ways that employers can help their employees is also available on the Revenue's website.

Is there anything else that I should be aware of?

Childcare vouchers are a great incentive for your employees, but before staff commit to entering a childcare voucher scheme involving salary sacrifice, it is important to make them aware of all the features and how joining a scheme might affect their overall financial position. In most instances the benefits of childcare

vouchers are likely to outweigh any negative effects, but employees must be able to make an informed decision based on their own circumstances.

Period of contract

When an employee agrees to sacrifice part of their salary for childcare vouchers, their contract of employment will need to be amended or an additional contractual agreement will need to be signed. This agreement will usually be for a set period of time, usually for one year, after which the agreement can be reviewed. The employee does not have an automatic right to revert back to their original salary within the contractual period. Many employers and schemes will however, offer an earlier review of the agreement in the event of 'unexpected life changes', which is anything linked to birth, death and marriage. You should be clear on what change in circumstances you might consider and can discuss this in more detail with a childcare voucher company.

Effects of salary sacrifice on terms and conditions of employment

There are many employer-provided benefits that are calculated on an employee's basic salary, for example overtime, sick pay, shift allowances, on-call time, uniform allowances and contractual maternity pay. Generally you should base these types of benefits on the full or 'notional' salary value, which means any salary-based enhancements are calculated on an employee's salary before the sacrifice. It is good practice for you to protect the benefits you provide.

Effects of salary sacrifice on employment benefits

Employment benefits, such as Statutory Maternity Pay and Statutory Sick Pay, are based on an employee's average earnings over a fixed period. Any amount that an employee receives in childcare vouchers will not be counted when calculating employment benefits.

It is good practice for you to base these types of benefits on the full or "notional" salary, although you would only be able to claim back the statutory amount.

As pregnancy is a 'life-changing event', it should be possible to review the employee's amended contractual arrangements (which permitted the original salary sacrifice) if you are not using the notional salary as a reference point when calculating entitlement to Statutory Maternity Pay. If the employee wants to, she should be able to leave the scheme before working the eight-week period, which her Statutory Maternity Pay will be based on, and therefore ensure it will not be affected.

Effects of salary sacrifice on contribution- and earnings-related benefits

Contribution-based benefits such as Jobseeker's Allowance, Incapacity Benefit and the State Pension are calculated according to the level of National Insurance Contributions paid by an individual. An individual's entitlement to contribution-based benefits may be affected by their participation in a childcare voucher salary sacrifice scheme, as their National Insurance Contributions will decrease.

Earnings-related benefits such as Maternity Allowance and the State Second Pension are based on an individual's income. An individual's entitlement to earnings-related benefits may be affected by their participation in a childcare voucher salary sacrifice scheme, as the amount received in childcare vouchers will not be taken into account when calculating income.

More information on the effects of salary sacrifice

More information about the effect salary sacrifice may have on employment benefits and other work-related benefits, is available from the Revenue's website www.hmrc.gov.uk

Effects on tax credits

Working Tax Credit supports those on lower incomes and working parents may be eligible for additional help towards registered childcare costs through the childcare element. The amount of help parents receive depends on their circumstances, including their income, the size of their family and the amount they pay in childcare. If an employee joins a salary sacrifice scheme, this can affect their entitlement to Working Tax Credit in two main ways:

- If an employee's average earnings have effectively been reduced, they could receive a higher payment through Working Tax Credit.
- As the value received in childcare vouchers cannot be considered as childcare costs when calculations are made for their entitlement to the childcare element of Working Tax Credit, the amount of tax credits will be reduced (essentially because you cannot claim twice for the same costs).

It is advisable for parents to find out what level of support they could be entitled to through Working Tax Credit before they join a childcare voucher salary sacrifice scheme. Some parents may be better off financially if they opt to receive help through Working Tax Credit rather than through their employer's childcare voucher scheme.

For employees who are already on a higher income, receiving childcare vouchers could affect their entitlement to Child Tax Credit or may lower the amount of their existing award. The income threshold for Child Tax Credit is currently £58,175 a year (up to £66,350 if you have a child under one).

How can I tell whether an employee would be better off with tax credits or with a voucher scheme?

The following information provides a general guide as to whether an employee would benefit from tax credits or from an employer-supported childcare voucher scheme, but individual circumstances should be checked carefully before deciding which help to apply for:

- Employees will always benefit from taking vouchers that are exempt from tax and National Insurance Contributions if they are offered on top of their salary.
- Generally, if an employee is getting less than £545 a year in total from tax credits, they will be better off using childcare vouchers.
- Generally, if an employee is getting more than £545 a year in total from tax credits, they will not gain from claiming the tax and National Insurance Contributions exemptions - unless they are a higher rate tax payer.
- Generally, if an employee's childcare costs are more than £175 per week for one child or £300 per week for two or more children, they will benefit from taking childcare vouchers to pay for the amount that their childcare costs exceed those limits.

For more information on Child Tax Credit and Working Tax Credit contact the Tax Credit Helpline on 0845 300 3900 or visit www.hmrc.gov.uk/childcare

Quality Assurance Schemes

The quality assurance schemes listed below are able to approve providers who care for children over the age of eight. Parents using 'approved' providers may be able to receive financial help towards their childcare costs through Working Tax Credit and childcare vouchers.

Scheme	Organisation	Address and contact
Aiming High	4Children	4Children City Reach 5 Greenwich View Place London E14 9NN Tel: 020 7522 6931
Flying High	Early Years and Childcare Teams at Somerset County Council and Torbay Council Local Educational Authority	Jane Morton Play Training B Block, County Hall Taunton Somerset TA1 4DY Tel: 01823 356785
For One Child and All Children	Cornwall Early Years Development and Childcare Partnership (EYDCP)	Kathryn Walker Cornwall EYDCP Vivian House Newham Quay Truro, Cornwall TR1 2DP Tel: 01872 270477
Merits of Quality Play	Stockport Early Years Development and Childcare Partnership (EYDCP)	Amanda Gould - Training and Development Manager Childcare and Early Years Team Stockport EYDCP Overdale Centre Powicke Drive Romiley Stockport SK6 3EF Tel: 0161 494 6630
Quality for all	Oldham Early Years Development and Childcare Partnership (EYDCP)	Ms Carole Hammet Oldham EYDCP The Education Shop 5 Barn Street Oldham OL1 1LP Tel: 0161 911 3161. ecs.carol.lancaster@oldham.gov.uk
Growing in Quality	Children's Links	Children's Links Holland House Horncastle College Mareham Road Lincolnshire LN9 6BW Tel: 01507 528 300
Quality in Play	London Play	Mick Conway Unit F6-F7 89-93 Fonthill Road London N4 3JH Tel: 020 7272 2464
Star Quality Assurance	London Borough of Newham	Danny Rogers Children's Services Manager London Borough of Newham

		<p>Culture and Community Services 292 Barking Rd East Ham E6 3BA Tel: 020 8430 3902</p>
<p>Norfolk Quality Kite mark</p>	<p>Norfolk County Council</p>	<p>Janet Morgan Norfolk County Council Early Years and Childcare Room 117 County Lane Martineau Lane Norwich NR1 2DL. Tel: 01603 598473</p>